



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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September 22, 2025

Writer's direct phone # 512.475.3813

Email: Mark.Scott@tdhca.texas.gov

To: Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit Report on the Implementation Status of Prior Audit Findings and Recommendations, Report # 25-007

Dear Board Members,

The TDHCA Fiscal Year 2024 Internal Audit Plan provides for a review of the implementation status of prior audit recommendations. The purpose of this report is to provide information regarding the status of management's efforts to address issues and recommendations noted during both internal and external audit work.

SCOPE AND METHODOLOGY

Our follow-up work covers TDHCA Office of Internal Audit (OIA) open findings and related recommendations made in audit reports dated through December 31st, 2024. An open finding is defined as a finding that was not completely addressed, or for which further action was still required, at the time of this review.

BACKGROUND

The TDHCA undergoes internal and external audits on a regular basis. Internal audits and external audits and reviews may include findings and associated recommendations that require follow-up to ensure that the issues identified during the audits have been addressed. External audits by the State Auditor's Office and federal oversight agencies may also include either formal findings or informally communicated issues that require follow-up. The Institute of Internal Auditors Standards state that "the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been

effectively implemented or that senior management has accepted the risk of not taking action. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.”(I.A Standards, IPPF 2500.A1 through 2600)

The following report provides an inventory of internal and external audits, and the related open findings. Findings that have been fully implemented will not be carried forward for future follow up activities.

Internal Audit reports addressed during this follow-up project include:

A. Audit reports with carry-over open findings that were outstanding as of the follow-up report dated August 2024:

No Carry-over findings

B. Internal Audits reports issued between January and December of 2024:

1. Internal Audit of the Ownership Transfers function, Report # 24-001
2. Internal Audit of the Program Services at TDHCA, Report # 24-002
3. Internal Audit of the Amendments and Construction Status Report, Report # 24-003
4. Internal Audit of the Compliance Monitoring Section of Compliance division, Report # 24-004

For detailed status of each Internal Audit finding and recommendation see **Appendix A**.

External audits

External audits and reviews of TDHCA are conducted by the State Auditor’s Office (SAO), the Comptroller’s Office, the Sunset Commission, and other oversight agencies. They are also conducted by Federal Funding agencies, and their various departments such as Inspector General’s Office and program monitoring. Both State and Federal audits track the status of findings related to TDHCA.

State Auditor’s Office (SAO)

Annual Financial Statement Audit, report # 25-555

The SAO conducts the Financial Statement part of the Statewide audit. The Financial Statement portion of the FY 2025 SAO statewide audit had no findings related to TDHCA.

Federal compliance portion of Statewide audit, report # 25-315

The federal compliance portion of the statewide audit for Texas, SAO Report #24-318, cited findings for TDHCA related to the Home Investment Partnership program in the area of subrecipient monitoring and “special tests and provisions-housing quality standards”. TDHCA has been working to resolve these findings.

We would like to express our appreciation to TDHCA management and staff for their courtesy and cooperation during this follow-up work.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Scott". The signature is fluid and cursive, with the first name "Mark" being more prominent.

Mark E. Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

Cc: Bobby Wilkinson, Executive Director
Beau Eccles, General Counsel
Brooke Boston, Deputy Executive Director
Scott Fletcher, Deputy Executive Director-Housing Finance
David Cervantes, Director of Administration
Wendy Quackenbush, Director of Multifamily Compliance
Rosalio Banuelos, Director of Multifamily Asset Management
Brenda Hull, Manager of Program Services

Appendix A

Status of Internal Audit Findings and Recommendations As of September 2025

1) Audit Report # 24-001

Internal Audit of the Ownership Transfers function.

OIA Findings and Recommendations:

- I. IA recommends that asset managers ensure that proper letter of explanation and agreement amongst parties is obtained for all non-controlling transfers.
- II. IA recommends that language be added to the appropriate ownership transfer documents addressing the use of draft documents in lieu of final documents for review of ownership transfers. This language should state that any draft document submitted by owners are accurate representations of final documents, and that no significant material changes would be made to said documents that would impact the outcome of an ownership transfer review.

Management's response and reported status:

- I. Asset Managers were reminded of this via email on March 11, 2024.
- II. The revised Tab 9- Owner Certification and Agreement to Comply form in the Ownership Transfer Request package on our website was updated on July 30, 2024.

Findings closed

2) Audit Report # 24-002

Internal Audit of the Program Services division at TDHCA.

OIA Finding and Recommendation:

- I. OIA recommends that management continue to review and revise all SOPs related to Program Services.
- II. OIA recommends that the division cross train other staff to serve as the backup for the Environmental specialist, if and when needed, to ensure continuity of operation.
- III. OIA recommends that management consider converting the temporary position to a permanent position to ensure accuracy and completion of loan documents.

- IV. OIA recommends establishing a system for revising and updating the QA checklists through liaisons from each program area.
- V. OIA recommends that the Division establish a procedure that would be in compliance with Texas laws in regard to presence of the notary at the time of signature.

Management's response and reported status:

- I. SOPs were reviewed and revised (if applicable) in August 2025. They are found at T:\so\sops\SOPs\SOPs 8_2025.
- II. Ms. Del Cueto is the backup for "Environmental". Quarterly environmental meetings are in place.
- III. A full-time employee retired, and the FTE was used to convert the previous temporary position to permanent FTE. The new position works with post-closing for SF and MF loans.
- IV. Program Services holds regular meetings with program areas to discuss any required updates to the QA checklist.
- V. Program Services has updated processes to ensure that a notary is present at the time of signature.

Findings closed

3) Audit Report # 24-003

Internal Audit of Amendments and Construction Status Report.

OIA Findings and Recommendations:

- I. OIA recommends that a note be made in the post-award activities manual that states that 4% HTC developments may not need to provide AIA G702 and G703 and construction inspection forms if they are not yet available for the required initial construction status report.

Management's response and reported status:

- I. The revised Post Award Activities Manual was posted on the website as of September 3, 2024.

Findings closed

4) Audit Report # 24-004

Internal Audit of the Compliance Monitoring section of the Compliance division.

OIA Findings and Recommendations:

- I. OIA recommends that the Compliance Monitoring section revise and update all the current SOPs to reflect current rules and requirements, as well as division's current practices, to provide clear and concise guidelines.
- II. OIA recommends that Compliance monitoring management establish a procedure to ensure monitors' compliance with established guidelines and deadlines in performing multifamily compliance monitoring reviews.

Management's response and reported status:

- I. SOPs were updated prior to April 30, 2025.
- II. An Excel spreadsheet was created to track and report all monitoring work.

Findings closed.